HOUSING MARKET OUTLOOK

Kitchener CMA

Canada Mortgage and Housing Corporation
www.cmhc.ca

Date Released: Spring 2006

New Home Market

Starts Will Remain Respectable

New home construction will remain respectable in 2006. Starts in the Kitchener CMA reached a thirteen-year high in 2002 and have been edging lower since then. Total home starts will reach 3,600, down just four per cent from last year but well above the historical average. Both single-detached and multiple family home starts will move lower.

A steady demand for new homes will be driven by several factors. Low mortgage rates will continue to stimulate housing demand. Strong job gains over the last several years are translating into growing incomes and support homebuying.

Consumer confidence, a measure of consumer sentiment regarding expenditures, will remain above average. Spill-over from a tight resale home market will fuel demand for new homes.

Single-detached home starts will move lower again this year, a trend started in 2003. A total of 2,000 single-detached homes will begin construction in 2006, down four per cent from last year. Increased construction costs and a shrinking supply of serviced lots will result in new detached home price increases well above the general rate of inflation. With mortgage rates moving slightly higher this year, carrying costs will increase beyond the reach of some homebuyers. As a result, many homebuyers will turn toward more affordable home types at the expense of single-detached homes.

Construction will begin on 1,600 semi-detached homes, townhouses and apartments in 2006, down five per cent from last year. Over the last five years, the multiple family home segment has grown. In 2000, one-third of starts were multiple family homes. In 2006, multiples will

IN THIS ISSUE

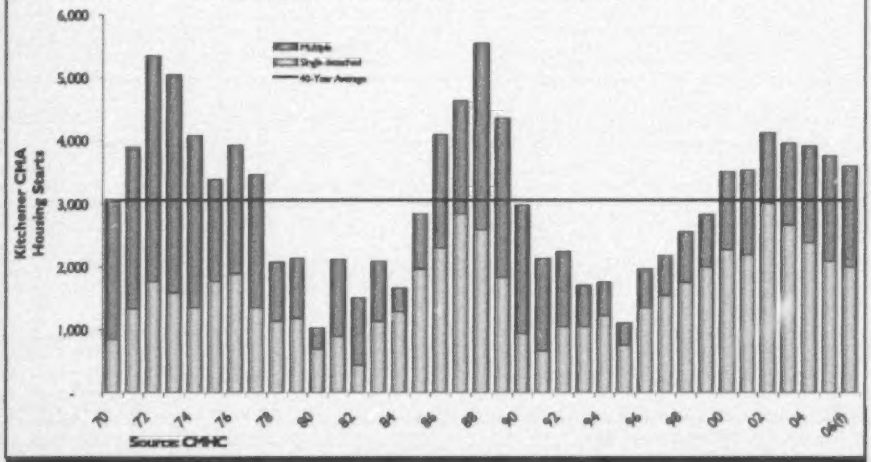
New Home Market
1. Starts will remain respectable

Resale Market
2. Resales to remain strong in 2006
Cambridge to see strong resales

Economic Trends
3. Mortgage rates will edge up in 2006
Job growth to continue
Migration steady
Consumers upbeat

4. Outlook Summary

Housing Starts will Remain Strong in 2006

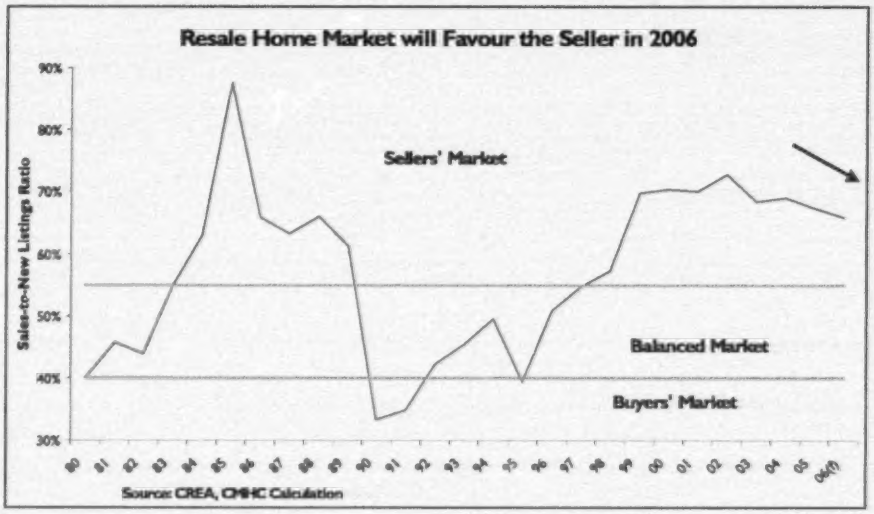


Erica McLerie - Market Analyst - CMHC
Tel: (416) 218-3318 Fax: (416) 218-3314
emclerie@cmhc.ca

Canada

CMHC SCHL
HOME TO CANADIANS

capture 45 per cent of all new construction activity. The push to urban intensification, with more infill and conversion projects, will benefit townhome and apartment construction.



Resale Market

Resales to remain strong in 2006

The Kitchener-Waterloo resale market will remain very strong in 2006. Existing home sales will reach another all-time high. A total of 6,250 homes will change hands, up 1.7 per cent from 2005.

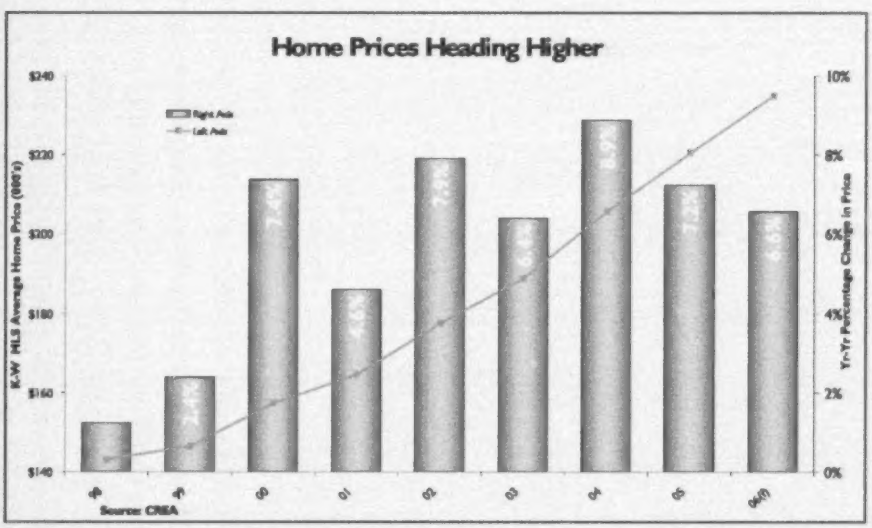
Positive housing demand factors remain in place to produce strong resale figures this year. Low mortgage rate, steady job growth, above average consumer confidence, and sustained in-migration will translate into strong demand for resale homes.

The supply of resale homes, as measured by new listings, will continue to increase. Strong price growth over the past few years has encouraged many homeowners to take advantage of significant equity gains and have listed their homes for sale. Since 1998, home prices are up by more than 50 per cent. As prices move higher, listings will continue to grow. A total of 9,500 homes will be brought onto the market this year, up 3.6 per cent from 2005 levels. More choice in the resale market due to the higher level of new listings will help potential homebuyers meet their housing needs.

With demand growing at a slower rate than supply this year, the Kitchener-Waterloo resale home market will move closer to a balanced market. Under these conditions, there will still be upward pressure on home prices, but less so. The average price of a resale home is forecast to increase by 6.1 per cent and reach $235,000 in 2006.

The sales-to-new listings ratio (SNLR) is a measure of the balance between demand and supply. A market with a SNLR above 55 per cent tends to be a seller's market, while a ratio between 40 and 55 per cent is indicative of a balanced market. With a SNLR well above 60 per cent for the last five years, the Kitchener-Waterloo resale market favoured the seller. Price growth above the rate of inflation is one of the characteristics of a sellers' market.

Rising home prices have been a concern for homebuyers. However, low mortgage rates have kept home carrying costs in check. Furthermore, consumers have choice. An alternative to higher priced single-detached homes are multiple family homes types such as semi-detached and townhomes. These homes are priced well below the KW average.



Cambridge to see strong resales

The Cambridge resale market will experience conditions similar to Kitchener-Waterloo. The same strong demand fundamentals are in place. Resales in 2006 are expected to reach another all-time high increasing by 5.3 per cent to 3,200.

The Cambridge sales-to-new-listings ratio suggests that seller's market conditions will prevail over the next year. These tight resale home market conditions will ensure price growth above the rate of inflation. The average resale price, under the Cambridge Real Estate Board, will increase by 6.7 per cent to reach $239,000 in 2006.

Economic Trends

Mortgage rates will rise in 2006

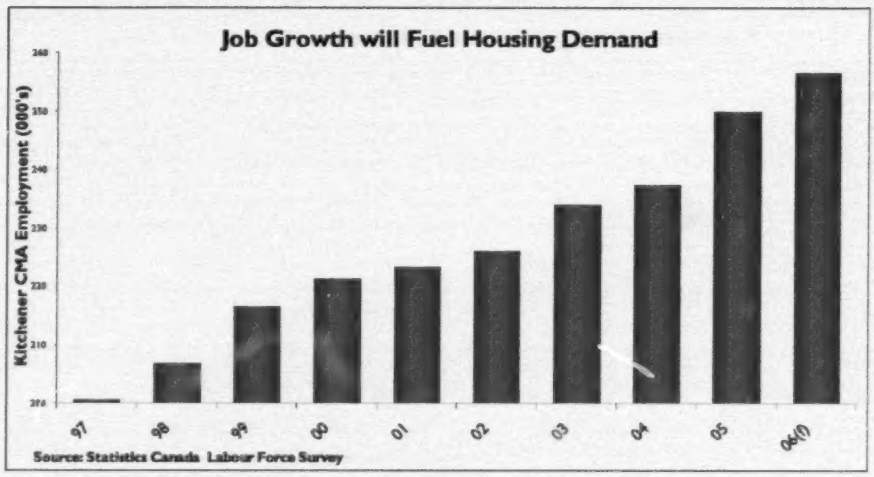
Moderate inflation and a strong Canadian dollar vis-à-vis the U.S. dollar will help restrain the size and speed of Canadian interest and mortgage rate increases in 2006.

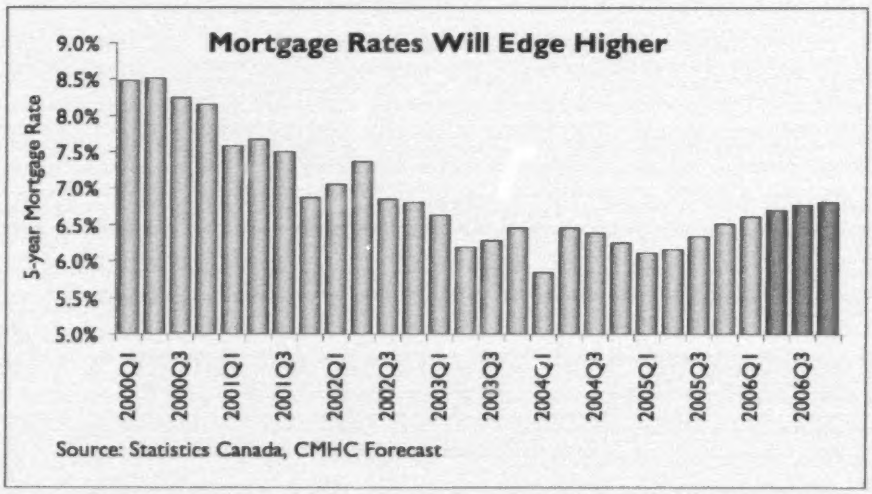
While still low by historical norms, mortgage rates are expected to rise gradually by 50-75 basis points in 2006. One, three and five-year mortgage posted rates are forecast to be in the 5.75-6.75, 6.00-7.00, and 6.25-7.25 per cent ranges respectively in 2006.

Job Growth to continue

Job growth is a key ingredient of housing demand. Strong job growth over the last several years will translate into above average housing demand. Employment in the Kitchener area was up by 12,600 jobs in 2005, an increase of 5.3 per cent. This growth in employment was more than four times the provincial level. Average annual employment in 2006 is forecast to increase by another 2.7 per cent to reach 256,600.

Much of the job growth in the Kitchener CMA has been in full-time employment. More than 4,900 full-time jobs were added to the local economy between December 2004 and December 2005. Stable full-time employment is important to housing demand.





The manufacturing sector in the Kitchener CMA has been held back by the strong Canadian dollar and high oil prices. On the other hand the services sector continues to add jobs. Interest rate sensitive sectors such as construction and finance, insurance and real estate are growing. Local skilled trades and construction jobs will be boosted by the refurbishment of the Bruce A nuclear power plant and the construction of the new Toyota plant in Woodstock.

Migration steady

Natural increase growth is slowing. Migration will be the driver behind population growth in the Kitchener CMA. Labour force growth going forward will mirror this population growth. Migration levels have been respectable, averaging above 4,500 net migrants per year. International and Intraprovincial migration have the largest impact on the Kitchener CMA population. Between 1999 and 2004, 61 per cent of net migrants to the Kitchener CMA were international migrants.

Consumers upbeat

The Ontario index of consumer attitudes, as measured by the Conference Board of Canada remains strong. Consumers are confident in their ability to buy and pay for large ticket items. Strength in the local Kitchener economy will keep consumers upbeat and support demand for housing.

Housing Market Outlook Summary
Kitchener Census Metropolitan Area

NEW HOME MARKET	2002	2003	2004	2005	% Change	2006(F)	% Change
Single-detached Starts	3,007	2,663	2,374	2,082	-12.3%	2,000	-3.9%
Multi-family Starts	1,123	1,292	1,538	1,681	9.3%	1,600	-4.8%
Total Starts	4,130	3,955	3,912	3,763	-3.8%	3,600	-4.3%
NHPI - Annual Change (Per Cent)	4.1%	3.3%	4.5%	5.0%	n/a	3.8%	n/a
RESALE MARKET							
Kitchener-Waterloo							
MLS[1] Sales	5,245	5,310	5,931	6,147	3.6%	6,250	1.7%
MLS[1] New Listings	7,224	7,757	8,601	9,127	6.1%	9,500	4.1%
Sales-to-Listings Ratio	72.6%	68.5%	69.0%	67.3%	n/a	65.8%	n/a
MLS[1] Average Price	$177,551	$188,905	$205,639	$220,511	7.2%	$235,000	6.6%
RENTAL MARKET							
Apartment Vacancy Rate	2.3%	3.2%	3.5%	3.3%	n/a	3.1%	n/a
Average Rent (2 bedroom)	$750	$754	$765	$777	1.6%	$793	2.1%
ECONOMIC OVERVIEW							
Mortgage Rate (1 year term)	5.17%	4.84%	4.59%	5.06%	n/a	6.27%	n/a
Mortgage Rate (3 year term)	6.28%	5.82%	5.65%	5.59%	n/a	6.43%	n/a
Mortgage Rate (5 year term)	7.02%	6.39%	6.23%	5.99%	n/a	6.78%	n/a
Employed (000's)	226.0	233.9	237.3	249.9	5.3%	256.6	2.7%
Net Migration (Census Year)	4,879	3,780	4,822	4,569	-5.2%	4,500	-1.5%

Sources: CREA, Kitchener-Waterloo Real Estate Board, Real Estate Board of Cambridge, Statistics Canada, and Conference Board of Canada

[1]Multiple Listings Service (MLS) is a registered certification mark own by the Canadian Real Estate association (CREA)

CMHC – HOME TO CANADIANS

Canada Mortgage and Housing Corporation (CMHC) has been Canada's national housing agency for over 60 years.

Together with other housing stakeholders, we help ensure that Canada maintains one of the best housing systems in the world. We are committed to helping Canadians access a wide choice of quality, affordable homes, while making vibrant, healthy communities and cities a reality across the country.

For more information, visit our website at www.cmhc.ca

You can also reach us by phone at 1 800 668-2642 or by fax at 1 800 245-9274.

Outside Canada call (613) 748-2003 or fax to (613) 748-2016.

Canada Mortgage and Housing Corporation supports the Government of Canada policy on access to information for people with disabilities. If you wish to obtain this publication in alternative formats, call 1 800 668-2642.

The Market Analysis Centre's (MAC) electronic suite of national standardized products is now available for **free** on CMHC's website. You can now view, print, download or subscribe to future editions and get market information e-mailed automatically to you the same day it is released. It's quick and convenient! Go to www.cmhc.ca/housingmarketinformation

For more information on MAC and the wealth of housing market information available to you, visit us today at www.cmhc.ca/housingmarketinformation

To subscribe to priced, printed editions of the national standardized product suite or regional specialty publications, call 1 800 668-2642.

©2006 Canada Mortgage and Housing Corporation. All rights reserved. CMHC grants reasonable rights of use of this publication's content solely for personal, corporate or public policy research, and educational purposes. This permission consists of the right to use the content for general reference purposes in written analyses and in the reporting of results, conclusions, and forecasts including the citation of limited amounts of supporting data extracted from this publication. Reasonable and limited rights of use are also permitted in commercial publications subject to the above criteria, and CMHC's right to request that such use be discontinued for any reason.

Any use of the publication's content must include the source of the information, including statistical data, acknowledged as follows:

Source: CMHC (or "Adapted from CMHC," if appropriate), name of product, year and date of publication issue.

Other than as outlined above, the content of the publication cannot be reproduced or transmitted to any person or, if acquired by an organization, to users outside the organization. Placing the publication, in whole or part, on a website accessible to the public or on any website accessible to persons not directly employed by the organization is not permitted. To use the content of any CMHC Market Analysis publication for any purpose other than the general reference purposes set out above or to request permission to reproduce large portions of, or entire CMHC Market Analysis publications, please contact: the
Canadian Housing Information Centre (CHIC) at chic@cmhc.gc.ca; (613) 748-2367 or 1 800 668-2642

For permission, please provide CHIC with the following information:
Publication's name, year and date of issue.

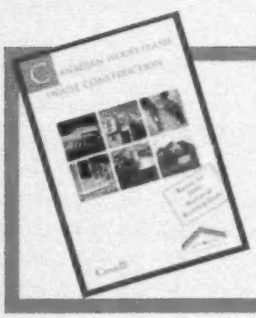
Without limiting the generality of the foregoing, no portion of the content may be translated from English or French into any other language without the prior written permission of Canada Mortgage and Housing Corporation.

The information, analyses and opinions contained in this publication are based on various sources believed to be reliable, but their accuracy cannot be guaranteed. The information, analyses and opinions shall not be taken as representations for which Canada Mortgage and Housing Corporation or any of its employees shall incur responsibility.

SUBSCRIBE NOW!

Access CMHC's Market Analysis Centre publications quickly and conveniently on the Order Desk at **www.cmhc.ca/housingmarketinformation.** View, print, download or subscribe to get market information e-mailed to you on the day it is released.

New ! CMHC's electronic suite of national standardized products is now available for **free.**



CANADIAN WOOD-FRAME

This national best-selling guide to constructing a wood-frame house is the ideal learning tool and job-site manual. The new edition of Canadian Wood-Frame House Construction has been updated to reflect the residential requirements of the 2005 National Building Code of Canada. In addition, many changes have been made to bring the book in line with current building science research, construction methods and construction materials. **Order now at www.cmhc.ca or call 1 800 668-2642**

64323_2006_B01